

Message Text

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ACTION AF-10

INFO OCT-01 EUR-12 ISO-00 DHA-02 SCS-03 SCA-01 NEA-10

FS-01 ABF-01 AID-05 CIAE-00 COME-00 EB-08 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 H-01 DODE-00 PA-01 PRS-01 AGRE-00

/114 W

-----051800 161253Z /46

P R 161120Z AUG 77

FM AMEMBASSY LAGOS

TO SECSTATE WASHDC PRIORITY 2950

INFO AMEMBASSY LONDON

AMCONSUL IBADAN

AMCONSUL KADUNA

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E.O. 11652: N/A

TAGS: EGEN, EFIN, EINV, ETRD, NI

SUBJECT: ONE BILLION NAIRA FOREIGN EXCHANGE SCANDAL

1. AFTER FOUR MONTHS OF INVESTIGATION AND ARRESTS, FMG SOURCES ESTIMATE THAT NAIRA ONE BILLION HAS BEEN LOST THROUGH COUNTRY-WIDE ILLEGAL CURRENCY TRANSACTIONS. OVER 200 PROMINENT NIGERIANS AND FOREIGNERS HAVE BEEN ARRESTED INCLUDING ASSISTANT INSPECTOR GENERAL OF THE NIGERIAN POLICE ADEWUSI, EX-LAGOS STATE COMMISSIONER SAKAKI PROMINENT BUSINESSMEN A. YESUF, E. SODIPO, AND CHIEF AWOLAESI AND POSSIBLY CHIEF HENRY FAJEMOROOMAN, PRESIDENT OF THE NIGERIAN/BRITISH CHAMBER OF COMMERCE. SEVERAL BRITISH, ITALIAN, INDIAN, LEBANESE AND AT LEAST ONE AUSTRIAN NATIONAL HAVE BEEN ARRESTED. NO ARRESTS OF U.S. CITIZENS KNOWN.

2. FOCUS OF SCANDAL IS IN FRAUDULENT BILLS OF ENTRY, TRAVELLERS' CHECKS ISSUED ON FORGED PASSPORTS, AND FLAGRANT OVER-INVOICING. FRAUD SEEMINGLY ACCOMPLISHED BY NIGERIAN AND

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EXPATRIATE PRIVATE BUSINESSMEN WITH UNKNOWN NUMBER OF ACCOMPLICES IN CENTRAL BANK, PORTS AUTHORITY, CUSTOMS, AND PROBABLY MINISTRY OF FINANCE. CENTRAL BANK APPROVED LETTERS OF CREDIT PROCESSED THROUGH NORMAL BANK CHANNELS. ALL COMMERCIAL BANKS OPERATING IN NIGERIA WERE USED APPARENTLY WITHOUT THEIR KNOWLEDGE ALTHOUGH SOME LOW LEVEL PERSONNEL HAVE BEEN ARRESTED. SAVANNAH BANK (BANK OF AMERICA), ESTIMATES IT

INADVERTENTLY PROCESSED DOLLARS 4 - 5 MILLION IN PHONY LETTERS OF CREDIT. FOR OTHER BANKS, THE TOTAL IS MUCH GREATER (E.G., AFRICAN CONTINENTAL BANK IS REMOVED TO HAVE PROCESSED OVER DOLLARS 200 MILLION). NONETHELESS, THE BANKS HAVE NO CORPORATE LIABILITY SINCE ALL LETTERS OF CREDIT HAD BEEN APPROVED BY THE CENTRAL BANK. CENTRAL BANK AND THUS NIGERIA'S EXCHANGE RESERVES MUST ABSORB LOSS.

3. VEHEMENT REACTION OF FMG OFFICIALS ALREADY VISIBLE AND EXPECTED TO BECOME MORE STRIDENT. PRIVATE SECTOR OBSERVERS ANTICIPATE WITCHHUNT WHICH MAY GO ON FOR MONTHS IN GRIMY SEARCH FOR ALL POSSIBLE SUSPECTS. IN ADDITION TO PROMINENT FIGURES, NUMBER OF LOW-RANKING ACCOUNTING PERSONNEL ALSO REPORTEDLY SEIZED (E.G. STAFF OF APAPA BRANCH OF SAVANNAH BANK HAS LOST 4 CLERKS). WHILE SUCH LOWER LEVEL WORKING STAFF MERELY CARRYING OUT ORDERS AS PART OF ROUTINE, IT IS BELIEVED THAT UNDER SEVERE QUESTIONING THEY WILL IMPLICATE WIDE NEW ARRAY OF "CULPRITS." FMG HAS ALREADY SELECTED PERIOD BACK TO JULY 29, 1975, THE ENTRY OF MOHAMMED REGIME, AS TIME FRAME IN WHICH ABUSES COULD HAVE BEEN COMMITTED AND ARE LIABLE FOR PROSECUTION.

4. COMMENT: EMBASSY BELIEVES THAT THE IMMEDIATE EFFECT OF THE SCANDAL WILL BE TO DISRUPT THE FLOW OF GOODS INTO NIGERIA OVER THE NEXT FEW MONTHS. GOVERNMENT AND BUSINESS OFFICIALS IN JAIL OR UNDER SUSPICION AND NEW BANKING REGULATIONS LENGTHENING THE LIMITED OFFICIAL USE

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WAITING PERIOD FOR PAYMENT CLEARANCE WILL TEND TO DERAIL NIGERIA'S ALL TOO INEFFICIENT IMPORT SYSTEM. CENTRAL BANK PROCESSING OF DOCUMENTS ALREADY SIGNIFICANTLY SLOWED.

5. LONGER TERM IMPLICATIONS ARE LESS CLEAR BUT POTENTIALLY MORE DANGEROUS. WITH LITTLE PROSPECT OF RECOVERING MORE THAN A FRACTION OF THE EXPECTED NAIRA 1 BILLION LOST, FOREIGN EXCHANGE RESERVES MAY DROP PRECIPITOUSLY ONCE THE BILLS ARE COUNTED. THIS IN TURN MIGHT FORCE THE FMG TO INCREASE OVERSEAS BORROWING OR ALTERNATIVELY CUT BACK ON NATIONAL DEVELOPMENT PLAN. ALTHOUGH THE SCANDAL MAY FINALLY FORCE FMG TO PUT ITS FINANCIAL HOUSE IN ORDER, MORE LIKELY THAT FMG WILL TAKE NO NEW ACTIONS (E.G. ADJUST EXCHANGE RATES, LOWER RATE OF INCREASE IN MONEY SUPPLY). IF NO ACTION TAKEN, FMG CREDIT RATING AS BORROWER IN INTERNATIONAL MONEY MARKETS SHOULD SLIDE.

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6. LONG TERM IMPACT ON TRADE AND INVESTMENT IS ALSO DAMAGING. FMG CONSIDERING POSSIBLE NEW BANKING REGULATIONS CALLING FOR BANK GUARANTEES FOR ALL GOODS COMING INTO COUNTRY. BANKS WOULD ONLY GRANT SUCH GUARANTEES FOR SUPPLIERS HAVING A SUBSTANTIAL LINE OF CREDIT WITH THEM. SINCE SMALL FIRMS USUALLY DO NOT, THEY WOULD BE EFFECTIVELY SQUEEZED OUT OF THE NIGERIA TRADE. ALSO NEARLY ALL TRADERS AND MANY INVESTORS WHO RELY ON OVER INVOICING AND OTHER ILLEGAL BUT "ACCEPTED" DEVICES TO "JUSTIFY" THEIR EXISTENCE HERE MAY BE SCARED OFF BY THREAT OF GOVERNMENT ACTION. WHETHER OR NOT FMG EFFECTIVELY CURTAILS IMPORT ILLEGALITIES IS PROBLEMATIC, BUT THREAT OF IT MAY DISSUADE RELATIVELY UNINFORMED TRADERS AND INVESTORS FROM INVESTIGATING THE NIGERIAN MARKET. LASTLY, SERIOUS AND INFORMED POTENTIAL INVESTORS MAY RETREAT FROM CONSIDERING NIGERIA AS POSSIBLE INVESTMENT LOCALE GROWING STORM OVER SCANDAL AND THREAT OF VARIETY OF NEW REGULATIONS COULD BE TAKEN AS ANOTHER PROOF OF UNPREDICTABLE GOVT BEHAVIOR HARMFUL TO BUSINESS.

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Message Attributes

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Disposition Approved on Date:
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Status: NATIVE
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TAGS: EGEN, EFIN, EINV, ETRD, NI
To: STATE
Type: TE
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